

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 USIA-06

PRS-01 /091 W

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P R 281909Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 8794

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 03170

DEPT PASS TREASURY AND FEA

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: PETROLEUM REVENUE TAX: INITIAL BRITISH REAC-
TIONS TO REVISED STRUCTURE AND RATE

REF: A) LONDON 2897, B) LONDON 2895, C) LONDON A-182

SUMMARY: PAYMASTER GENERAL DELL'S ANNOUNCEMENT OF RE-
VISED PETROLEUM REVENUE TAX (PRT) DETAILS MET WITH MIXED
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REACTION. BY IN LARGE CONSERVATIVE OPPOSITION MPS AP-

PROVED WHILE LEFT WING LABOR AND SCOTTISH NATIONALIST MPS WERE CRITICAL OF HMG CONCESSIONS MADE ALLEGEDLY IN FACE OF OIL COMPANY THREATS. PRESS WAS GENERALLY FAVORABLE CONSIDERING HMG HAD STRUCK APPROPRIATE BALANCE BETWEEN BRITISH NATIONAL AND OIL COMPANY INTERESTS. SUBSTANTIAL INCREASE IN STOCKMARKET PRICE OF BP AND SHELL INDICATED FINANCIAL CIRCLES WERE ENCOURAGED (OR RELIEVED) BY PRT ANNOUNCEMENT. OIL COMPANIES MAINTAINED LOW PUBLIC PROFILE BUT PRIVATELY EXPRESSED SATISFACTION WITH CONCESSIONS ANNOUNCED BY DELL. END SUMMARY

BEGIN UNCLASSIFIED

1. CONSERVATIVE OPPOSITION SPOKESMAN ONENERGY, PATRICK JENKIN, SAID IT WAS EVIDENT PAYMASTER GENERAL HAD LISTENED WITH CARE AND UNDERSTANDING TO INDUSTRY VIEWS ON PRT. HE BELIEVED LATEST PROPOSALS, COUPLED WITH OTHER SUBSTANTIAL AMENDMENTS WHICH HAVE BEEN MADE OR PROMISED, REPRESENT A CONSIDERABLE IMPROVEMENT. JENKIN STATED, HOWEVER, THAT HE SERIOUSLY DOUBTED WHETHER RELIEF AFFORDED ON PRT IS ENOUGH TO RESTORE CONFIDENCE TO OIL INDUSTRY WHOSE CONFIDENCE HAS BEEN BADLY SHAKEN. SEVERAL LEFT WING LABOR MPS QUESTIONED WHETHER DELL WAS, IN FACT, CARRYING OUT PROVISIONS OF LABOR PARTY MANIFESTO, GIVING IN TO CAMPAIGN OF WEALTHY OIL COMPANIES OR SELLING OUT TO OIL COMPANY BLACKMAIL. SCOTTISH NATIONALIST OIL POLICY SPOKESMAN GORDON WILSON DECLARED THAT IN SCOTLAND DELL'S CONCESSIONS MADE TO INTERNATIONAL OIL COMPANIES "WILL BE GREETED WITH CONSIDERABLE HORROR AND ANGER".

2. STRAIGHT PRESS COVERAGE OF PRT ANNOUNCEMENT WAS EXTENSIVE; EDITORIAL COMMENT WAS FAVORABLE ALTHOUGH SPARSE. LEAD EDITORIAL IN FT "UNBOTCHING A BOTCHED JOB" CRITICIZED GOVERNMENT'S HANDLING OF PRT NEGOTIATIONS REQUIRED BY LABOR PARTY ELECTION MANIFESTO BUT CONCLUDED THAT PACKAGE AS A WHOLE IS PROBABLY RATHER MORE REALISTIC THAN EXPECTED. FT SAID GOVERNMENT CERTAINLY APPEARS TO BELIEVE THAT IT HAS NOW RETREATED FAR ENOUGH TO ENSURE IT DOES NOT THWART ITS OWN ECONOMIC STRATEGY. OBSERVING IT WILL INEVITABLY BE SOME TIME BEFORE COMPANIES INVOLVED HAVE

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DIGESTED THIS CHANGE IN THEIR OPERATING CONDITIONS, AND THAT DISCUSSIONS ON PARTICIPATION MAY DRAG ON FOR A LONG TIME YET, FT CONCLUDED THAT "A JOB ONCE BOTCHED CANNOT BE UNBOTCHED QUICKLY". GUARDIAN BELIEVED DELL SEEMED TO HAVE SUCCEEDED IN OFFERING OIL COMPANIES PROFITS HIGH AND SAFE ENOUGH TO ENCOURAGE THEM TO STAY IN NORTH SEA AND CONTINUING EXPLORING WHILE ENSURING A REASONABLE RETURN FOR BRITAIN.

3. INITIAL REACTION OF STOCKMARKET WAS FAVORABLE AS PRICES OF BP AND SHELL SHARES MADE SUBSTANTIAL GAINS. BALANCING THIS BURST OF OPTIMISM WAS REPORT THAT REQUESTS FOR VALUATIONS BY FIRMS WITH NORTH SEA INTERESTS WITH VIEW TO SALE OR DISPOSAL OF ASSETS ARE NOW RUNNING AT A HIGH RATE, ESPECIALLY BY SMALLER COMPANIES TEMPTED TO TAKE THEIR MONEY AND RUN.

4. FORMAL OIL COMPANY REACTION WAS PREDICTABLY CAUTIOUS AS BP, CONOCO AND PURPORTEDLY SHELL BROADLY WELCOMED LATEST PRT CONCESSIONS. ONE COMPANY OFFICIAL WAS REPORTED TO HAVE SAID DELL WENT ABOUT AS FAR AS COULD BE

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 03170

EXPECTED IN RESPONDING TO INDUSTRY CRITICISMS OF PRT STRUCTURE INITIALLY PROPOSED BY HMG. FOR MOST PART, COMPANIES WERE STILL BUSY CALCULATING PRECISE EFFECT OF PRT ON THEIR INDIVIDUAL FIELD ECONOMICS.

5. COMMENT: INITIAL EXPECTATIONS ARE THAT OVERALL GOVERNMENT TAKE WILL AVERAGE 70 PERCENT (BASED ON MEDIUM SIZE OUTPUT OF AROUND 200,000 BARRELS A DAY) WITH HMG TAKE ON GIANT FORTIES, PIPER AND BRENT FIELDS RANGING
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AS HIGH AS 80 PERCENT AND ON SMALLEST FIELDS AS LOW AS 60 PERCENT. ALTHOUGH HMG TAKE ON LARGER FIELDS SHOULD APPROXIMATE THAT PROPOSED BY NORWEGIANS ON EKOFISK, THERE IS SOME DISPUTE AS TO WHETHER IT WILL FALL BELOW PROPOSED NORWEGIAN TAKE ON SMALLER FIELDS. ASSUMING SLOW-DOWN IN ESCALATION IN COSTS OF NORTH SEA EXPLORATION TO A LEVEL MORE OR LESS CONSONANT WITH RATE OF GENERAL INFLATION, REVISED PRT COULD PARTIALLY RESTORE ECONOMICS OF NORTH SEA DEVELOPMENT TO SATISFACTORY BUT NOT TO "BONANZA" LEVEL PREVAILING UP UNTIL A YEAR AGO.

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6. LAST MINUTE INSERTION OF 30 PERCENT "SAFETY NET" CLAUSE WAS COMPLETE SURPRISE. AS LATE AS EVENING PRIOR TO DELL'S FEBRUARY 25 STATEMENT, UK OFFSHORE OPERATORS ASSOCIATION WAS UNAWARE HMG WAS EVEN CONSIDERING SUCH A PROVISION. AS PRACTICAL MATTER, INDUSTRY OFFICIALS BELIEVE "SAFETY NET", WHILE NOT AFFECTING PRESENT SITUATION, PROVIDES GOOD MEASURE OF PROTECTION AGAINST SUBSTANTIAL DROP IN OIL PRICES OR SHARP INCREASES IN PRODUCTION COSTS.

7. DURING NEXT MONTH INDUSTRY OFFICIALS WILL BE ATTEMPTING WITH HMG TO IMPROVE ON "FINE PRINT" PRT ASPECTS OF SUBSTANTIAL CONSEQUENCE SUCH AS INTRA-COMPANY INTEREST DISALLOWANCE, CARRY-OVER PROVISIONS, ETC., WHICH WILL NOT ATTRACT PUBLIC OR PARLIAMENTARY ATTENTION. BUT MAIN MESSAGE IS THAT PRT HAS BEEN SUFFICIENTLY DIMINISHED POINT WHERE IT SHOULD NO LONGER BE A DECISIVE FACTOR IN MAKING A BUSINESS JUDGMENT AS TO WHETHER OR NOT A COMPANY WILL PROCEED WITH DEVELOPMENT OF A PARTICULAR OIL FIELD.

8. BARGAINING OVER FINAL DETAILS OF PRT SHOULD TAKE PERHAPS ANOTHER 4 TO 6 WEEKS. THEREAFTER, CONSIDERATION OF MAJORITY STATE PARTICIPATION SHOULD BEGIN IN EARNEST.

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